

CABINET AFFAIRS STAFFING MEMORANDUM

Date: 5/16/85 Number: 169164CA Due By: _____

Subject: Meeting of the Economic Policy Council - May 16, 1985, 2:00 PM

Agenda Items: Post-Summit Trade Strategy; Pending Textile Legislation

ALL CABINET MEMBERS	Action	FYI
Vice President	<input checked="" type="checkbox"/>	<input type="checkbox"/>
State	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Treasury	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Defense	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Justice	<input type="checkbox"/>	<input type="checkbox"/>
Interior	<input type="checkbox"/>	<input type="checkbox"/>
Agriculture	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Commerce	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Labor	<input checked="" type="checkbox"/>	<input type="checkbox"/>
HHS	<input type="checkbox"/>	<input type="checkbox"/>
HUD	<input type="checkbox"/>	<input type="checkbox"/>
Transportation	<input type="checkbox"/>	<input type="checkbox"/>
Energy	<input type="checkbox"/>	<input type="checkbox"/>
Education	<input type="checkbox"/>	<input type="checkbox"/>
Counsellor	<input type="checkbox"/>	<input type="checkbox"/>
OMB	<input type="checkbox"/>	<input type="checkbox"/>
<u>CIA</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
UN	<input type="checkbox"/>	<input type="checkbox"/>
USTR	<input checked="" type="checkbox"/>	<input type="checkbox"/>
Chief of Staff	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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GSA	<input type="checkbox"/>	<input type="checkbox"/>
EPA	<input type="checkbox"/>	<input type="checkbox"/>
NASA	<input type="checkbox"/>	<input type="checkbox"/>
OPM	<input type="checkbox"/>	<input type="checkbox"/>
VA	<input type="checkbox"/>	<input type="checkbox"/>
SBA	<input type="checkbox"/>	<input type="checkbox"/>

	Action	FYI
CEA	<input checked="" type="checkbox"/>	<input type="checkbox"/>
CEQ	<input type="checkbox"/>	<input type="checkbox"/>
OSTP	<input type="checkbox"/>	<input type="checkbox"/>
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Deaver	<input type="checkbox"/>	<input type="checkbox"/>
McFarlane	<input type="checkbox"/>	<input type="checkbox"/>
Svahn	<input type="checkbox"/>	<input type="checkbox"/>
Chew (For WH Staffing)	<input checked="" type="checkbox"/>	<input type="checkbox"/>
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Executive Secretary for:		
CCCT	<input type="checkbox"/>	<input type="checkbox"/>
CCEA	<input type="checkbox"/>	<input type="checkbox"/>
CCFA	<input type="checkbox"/>	<input type="checkbox"/>
CCHR	<input type="checkbox"/>	<input type="checkbox"/>
CCLP	<input type="checkbox"/>	<input type="checkbox"/>
CCMA	<input type="checkbox"/>	<input type="checkbox"/>
CCNRE	<input type="checkbox"/>	<input type="checkbox"/>

REMARKS:

The first meeting of the Economic Policy Council will be Thursday May 16, 1985, at 2:00 PM in the Cabinet Room. The President will chair the meeting.

Attached is the background paper on the pending legislation to restrict imports of textiles to the United States.

RETURN TO: Attendance will be limited to principals.

☐ Alfred H. Kingon
Cabinet Secretary
456-2823
(Ground Floor, West Wing)

☐ Don Clarey
☐ Tom Gibson
☒ Larry Herbolzheimer

Associate Director
Office of Cabinet Affairs
456-2823 (Room 129, OE08)

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THE WHITE HOUSE

WASHINGTON

May 15, 1985

MEMORANDUM FOR THE ECONOMIC POLICY COUNCIL

FROM: ROGER B. PORTER *RBP*
SUBJECT: Agenda and Papers for the May 16 Meeting

The agenda and an additional paper for the May 16 meeting of the Economic Policy Council are attached. The meeting is scheduled for 2:00 p.m. in the Cabinet Room.

The first agenda item is a discussion of trade strategy following the Bonn Economic Summit. A paper prepared by the Office of the U.S. Trade Representative outlining a proposed post-Bonn Summit trade strategy was circulated to council members on Tuesday.

The second agenda item is now textile trade legislation. A paper describing the thrust of this legislation, recent developments in textile trade, and outlining the legislative situation is attached.

Attachments

THE WHITE HOUSE
WASHINGTON

ECONOMIC POLICY COUNCIL

May 16, 1985

2:00 p.m.

Cabinet Room

AGENDA

1. Post Summit Trade Strategy
2. Textile Trade Legislation

Economic Policy Council

Issue Paper

Textile Trade Legislation

Issue

The Textile Apparel Trade and Enforcement Act of 1985 (S. 680 and H.R. 1562) has rapidly gained support in the Congress. It would significantly rollback textile and apparel imports. When the legislation was introduced many felt it was principally designed to influence the Administration's position on extension of the Multi-Fiber Arrangement (MFA). The strong support it has generated may have expanded the objectives of its proponents.

The Administration needs to decide its strategy with respect to this legislation and with respect to renewal of the MFA.

Background

This legislation is part of a sustained effort by the domestic textile and apparel industry in recent years to maintain and enhance its position against highly competitive foreign imports.

1. In 1981 the Administration agreed to "make every effort to satisfactorily conclude an MFA that will allow us to relate total import growth to the growth in the domestic textile and apparel market."

The industry has interpreted this to mean that we would seek a one to one correlation between import growth and domestic production to freeze the market share for U.S. producers.

2. During the 1980-1984 period the value and quantity of imports grew more rapidly than domestic production.

The value of textile and apparel imports grew 66 percent between 1980 and 1984 with 34 percent of the growth during the 1982-1983 recovery period.

The value of domestic shipments over the same period grew by 21 percent. Despite the increase in domestic production, employment in the industry has declined due partly to technological advances.

3. To address the increase in imports the Administration has taken a number of actions to curb textile and apparel imports.

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The Administration has:

- o Negotiated or imposed over 300 quotas (104 in 1983, 110 in 1984, and 31 so far in 1985);
- o Tightened the Customs program against quota fraud and circumvention;
- o Implemented new textile rules of origin, despite intense international criticism, which have made legal quota evasion more difficult;
- o Strengthened the Multi-Fiber Arrangement during its 1981 extension negotiations and in 1982 renegotiated the "Big Three" agreements (Taiwan, Hong Kong, Korea) with significant limit cutbacks and reduced growth and flexibility rates for import sensitive products.

We currently have 34 bilateral textile agreements and unilateral quotas on six additional suppliers. An estimated 80 percent of low-priced imports are now controlled by quotas.

4. In large part due to these actions, import growth moderated to 5.0 percent in the fourth quarter of 1984 and declined 3.0 percent in the first quarter of 1985.

The strong dollar will keep imports attractive, but the quotas negotiated in 1983 and 1984 will slow growth significantly, permitting increases mostly to developed countries and new entrants.

The Textile & Apparel Trade Enforcement Act of 1985

This legislation, if enacted, would not only significantly reduce textile imports, but would greatly increase textile and apparel prices for U.S. consumers, undermine existing U.S. trade agreements, and invite retaliation against U.S. exports.

1. The Act would markedly rollback textile and apparel imports most severely impacting major suppliers.

It would apply to all exporting countries with the exception of Canada and current members of the European Economic Community. The Act would differentiate between major exporting countries (those with 1.25 percent or more of U.S. imports) and smaller exporting countries (those with less than 1.25 percent of U.S. imports).

The rollback would reduce imports from major suppliers (12 countries) by nearly 40 percent. Imports from all exporters would be reduced by nearly 27 percent.

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2. The economic costs of the legislation are substantial whether measured in terms of increased prices for consumers or costs per job saved.

Preliminary estimates now being refined by an interagency working group place the net loss to the U.S. economy at \$2.5 billion with the consumer cost per job saved in excess of \$300,000. A detailed analysis of the economic impact of the legislation should be completed next week.

3. USTR has concluded that passage of the legislation would force the U.S. to abrogate the Multi-Fiber Arrangement and the 34 bilateral agreements we have negotiated.

There is considerable confusion on this implication of the Act in the Congress with some of its supporters under the impression that the legislation is consistent with the Multi-Fiber Arrangement.

4. Implementation of the Act would almost certainly invite retaliation against U.S. exports.

U.S. exports to the 12 major suppliers which would be affected most adversely totaled over \$33 billion in 1984. Among the items which might be hit by retaliatory action are corn and wheat (\$5.1 billion in exports to the 12 countries), aircraft (nearly \$3 billion), and cigarettes and tobacco (approximately \$750 million).

Legislative Situation

The legislation has rapidly gained support in Congress with 251 cosponsors in the House and 42 in the Senate as of May 15. USTR believes that the legislation could probably pass in the House if brought to the floor today.

Congressman Gibbons, chairman of the Ways and Means Subcommittee on Trade, is finding it increasingly difficult to prevent a mark-up of the bill.

In the Senate, there appears only a slight possibility that the legislation would be reported by the Finance Committee any time in the near future. While the industry is becoming more confident that the legislation could pass, some believe the intent of the legislative effort was to pressure the Administration to take a more restrictive position for the renegotiation of the MFA which expires in July 1986. Renewal of the MFA would require negotiations commencing sometime this autumn.

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The Administration is on record as formally opposing the legislation, but this has not yet been communicated at a senior level. Without a prompt, well-organized effort opposing the legislation, many of our potential allies may find it increasingly difficult to resist pressure to support the bill.

While the legislation is under active consideration in the Congress, the industry will likely prove reluctant to work with the Administration in developing our strategy for the successor to the MFA, unless we are willing to take a position as restrictive as the legislation.